

Financial Statements

Compassion House Foundation

February 28, 2018

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Independent Auditor's Report

To the Directors of
Compassion House Foundation

We have audited the accompanying financial statements of Compassion House Foundation (the "Foundation"), which comprise the statement of financial position as at February 28, 2018, and the statements of operations, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

In common with many not-for-profit organizations, Compassion House Foundation derives revenue from fundraising activities, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of Compassion House Foundation. Therefore, we were not able to determine whether any adjustments might be necessary to fundraising revenue, excess of revenues over expenses, and cash flows from operations for the years ended February 28, 2018 and February 28, 2017, current assets as at February 28, 2018 and 2017, and net assets as at March 1, 2017 and 2016 and February 28, 2018 and 2017. Our audit opinion on the financial statements for the year ended February 28, 2017 was modified accordingly because of the possible effects of this limitation in scope.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Compassion House Foundation as at February 28, 2018, and its financial performance, cash flows and changes in net assets for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Edmonton, Canada

June 20, 2018



Chartered Professional Accountants

Compassion House Foundation

Statement of Operations

Year ended February 28

2018

2017

	<u>General</u>	Sorrentino's Compassion <u>House</u>	<u>Total</u>	<u>Total</u>
Revenues				
Fashion show (Note 9)	\$ 571,789	\$ -	\$ 571,789	\$ 659,409
Sustainability fund contributions	-	19,000	19,000	57,900
Amortization of deferred capital contributions (Note 7)	93,600	-	93,600	93,556
Donations	108,196	-	108,196	121,460
Special events	208,920	-	208,920	50,430
Casino and raffle	-	26,282	26,282	25,395
Net investment income (Note 8)	137,087	-	137,087	518,085
In-kind donations	18,567	-	18,567	13,166
Accommodation fees	-	118,575	118,575	115,580
	<u>1,138,159</u>	<u>163,857</u>	<u>1,302,016</u>	<u>1,654,981</u>
Direct expenses				
Fashion show	383,164	-	383,164	428,305
Special events	22,778	-	22,778	8,811
In-kind donations	18,591	-	18,591	13,166
	<u>424,533</u>	<u>-</u>	<u>424,533</u>	<u>450,282</u>
Operating expenses				
Accounting	20,931	-	20,931	22,407
Advertising	21,472	-	21,472	15,739
Amortization	-	170,089	170,089	163,963
Bank charges	3,701	3,701	7,402	5,833
Business license	230	-	230	285
Computer maintenance	13,599	13,599	27,198	23,394
Education and training	1,684	19,712	21,396	4,192
Insurance	-	14,025	14,025	13,852
Meetings	4,031	-	4,031	5,196
Office and sundry	4,654	4,654	9,308	7,828
Postage and courier	1,017	1,017	2,034	2,343
Professional fees	23,081	23,081	46,162	33,547
Programs and community relations	11,452	3,775	15,227	18,645
Repairs and maintenance	-	119,869	119,869	42,705
Salaries and benefits	260,898	173,933	434,831	374,121
Supplies	-	18,415	18,415	12,198
Telephone and utilities	-	33,133	33,133	28,228
Travel	1,399	-	1,399	1,467
Volunteer recognition	3,823	-	3,823	1,574
	<u>371,972</u>	<u>599,003</u>	<u>970,975</u>	<u>777,517</u>
(Deficiency) excess of revenues over expenses	<u>\$ 341,654</u>	<u>\$ (435,146)</u>	<u>\$ (93,492)</u>	<u>\$ 427,182</u>

See accompanying notes to the financial statements.

Compassion House Foundation
Statement of Changes in Net Assets

Year ended February 28

2018 **2017**

	<u>General</u>	Investment in tangible capital assets (Note 10)	Internally restricted sustainability fund (Note 11)	<u>Total</u>	<u>Total</u>
Balance, beginning of year	\$ 3,271,514	\$ 1,190,425	\$ 2,108,674	\$ 6,570,613	\$ 6,143,431
(Deficiency) excess of revenues over expenses	(17,003)	(76,489)	-	(93,492)	427,182
Transfer to internally restricted fund (Note 11)	(19,000)	-	19,000	-	-
Transfer to investment in tangible capital asset fund (Note 10)	<u>(14,656)</u>	<u>14,656</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 3,220,855</u>	<u>\$ 1,128,592</u>	<u>\$ 2,127,674</u>	<u>\$ 6,477,121</u>	<u>\$ 6,570,613</u>

See accompanying notes to the financial statements.

Compassion House Foundation

Statement of Financial Position

As at February 28

2018

2017

Assets

Current

Cash (Page 6)	\$ 176,812	\$ 336,657
Marketable securities (Note 4)	5,440,452	5,301,372
Accounts receivable	3,400	8,050
Goods and services tax recoverable	11,110	11,067
Prepays	<u>5,510</u>	<u>5,460</u>
	5,637,284	5,662,606

Tangible capital assets (Note 5)

4,247,633 4,403,067

\$ 9,884,917 **\$ 10,065,673**

Liabilities

Current

Accounts payable and accruals	\$ 46,220	\$ 41,726
Deferred contributions (Note 6)	242,532	240,690
Deferred capital contributions (Note 7)	<u>3,119,044</u>	<u>3,212,644</u>
	<u>3,407,796</u>	<u>3,495,060</u>

Net assets

General fund - unrestricted	3,220,855	3,271,514
Investment in tangible capital assets (Note 10)	1,128,592	1,190,425
Internally restricted (Note 11)	<u>2,127,674</u>	<u>2,108,674</u>
	<u>6,477,121</u>	<u>6,570,613</u>
	<u>\$ 9,884,917</u>	<u>\$ 10,065,673</u>

On behalf of the Board

_____ Director

_____ Director

Compassion House Foundation

Statement of Cash Flows

Year ended February 28

2018

2017

Increase (decrease) in cash and cash equivalents

Operating

(Deficiency) excess of revenues over expenses	\$ (93,492)	\$ 427,182
Amortization of tangible capital assets	170,089	163,963
Amortization of capital contributions	(93,600)	(93,556)
Realized gain on sale of marketable securities	(6,381)	(8,078)
Unrealized gain on changes in fair value of marketable securities	<u>(10,411)</u>	<u>(410,192)</u>
	(33,795)	79,319
Change in non-cash operating working capital:		
Accounts receivable	4,650	(1,603)
Goods and services tax recoverable	(43)	4,435
Prepays	(50)	219
Accounts payable and accruals	4,494	1,946
Deferred contributions	<u>1,842</u>	<u>74,506</u>
	(22,902)	<u>252,701</u>

Investing

Purchase of marketable securities	(3,495,902)	(827,564)
Proceeds from sale of marketable securities	3,373,615	725,770
Purchase of tangible capital assets	(14,656)	(14,860)
Decrease (increase) in restricted cash	<u>10,263</u>	<u>(47,552)</u>
	(126,681)	<u>(164,206)</u>

Net (decrease) increase in cash and cash equivalents	(149,582)	(5,384)
Cash and cash equivalents, beginning of year	<u>239,507</u>	<u>244,891</u>
Cash and cash equivalents, end of year	\$ 89,925	\$ 239,507

Cash consists of the following:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 89,925	\$ 239,507
Restricted casino funds	<u>86,887</u>	<u>97,150</u>
	\$ 176,812	\$ 336,657

Compassion House Foundation

Notes to the Financial Statements

February 28, 2018

1. Purpose of the Foundation

The Compassion House Foundation (the "Foundation") is dedicated to providing accommodation facilities and a sanctuary of care and compassion for cancer patients and their families during treatment and recovery. The Foundation was incorporated under the Societies Act of Alberta as a not-for-profit organization, is a registered charity under the Income Tax Act and is exempt from income taxes.

2. Summary of significant accounting policies

These financial statements are prepared by management in accordance with Canadian accounting standards for not-for-profit organizations ("ASNPO") and reflect the following significant accounting policies:

Use of estimates and measurement uncertainty

In preparing the Foundation's financial statements in conformity with ASNPO, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. Significant estimates included in these financial statements are the useful lives of tangible capital assets, impairment tests for long-lived assets and fair value of marketable securities.

Allocation of expenses

The Foundation engages in providing accommodation facilities and fundraising. The costs of each program include the costs of personnel, premises and other expenses that are directly related to providing the program. The Foundation also incurs a number of general support expenses that are common to the administration of the Foundation and each of its programs.

The costs incurred for fundraising are included in the general category in the statement of operations. The costs incurred for accommodation facilities are included in the Sorrentino's Compassion House category in the statement of operations.

The Foundation allocates certain of its expenses by identifying the appropriate basis of allocating each component expense, and applies that basis consistently each year. General support expenses are allocated on the following basis:

Amortization – proportionately on the basis of the cost of tangible capital assets within the programs;

Salaries and benefits – on the basis of the number of people employed within the program; and

Remaining operating expenses – on the estimated consumption attributable to the running of the Sorrentino's Compassion House accommodation facility and the fundraising activity of the Foundation.

Compassion House Foundation

Notes to the Financial Statements

February 28, 2018

2. Summary of significant accounting policies (cont'd)

Revenue recognition

The Foundation follows the deferral method of accounting for contributions.

Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Restricted contributions received for the purchase of capital assets that will be amortized are deferred and recognized as revenue on the same basis as the amortization expense related to the acquired capital assets. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Other revenues are recognized as revenue when the related service is performed and when reasonable assurance exists regarding the measurement and collection of the consideration received.

Investment income on marketable securities is recorded as revenue when earned.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash. Short-term investments which are highly liquid or convertible to cash in less than three months and used to support the long term operation of the Foundation are included in marketable securities.

The Foundation's definition of investing activities for the statement of cash flows includes short term investments in marketable securities and restricted cash.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the prevailing rate of exchange at the balance sheet date. Revenues and expenses are translated at the exchange rates prevailing on the transaction dates. The Foundation does not use derivative instruments to mitigate foreign exchange risk.

Financial instruments

Initial measurement:

The Foundation's financial instruments are measured at fair value when issued or acquired. For financial instruments subsequently measured at cost or amortized cost, fair value is adjusted by the amount of the related financing fees and transaction costs. Transaction costs and financing fees relating to financial instruments that are measured subsequently at fair value are recognized in operations in the year in which they are incurred.

Compassion House Foundation

Notes to the Financial Statements

February 28, 2018

2. Summary of significant accounting policies (cont'd)

Financial instruments (cont'd)

Subsequent measurement:

At each reporting date, the Foundation measures its financial assets and liabilities at cost or amortized cost (less impairment in the case of financial assets), except for equities quoted in an active market, which must be measured at fair value. The Foundation has also irrevocably elected to measure its investments in bonds at fair value. All changes in fair value of the Foundation's investments in equities quoted in an active market and in bonds are recorded in the statement of operations. The Foundation uses the effective interest method to amortize any premiums, discounts, transaction fees and financing fees to the statement of operations. The financial instruments measured at amortized cost are cash, accounts receivable and accounts payable and accruals. The carrying value of financial instruments approximates their fair value due to the short-term nature, unless otherwise noted.

For financial assets measured at cost or amortized cost, the Foundation regularly assesses whether there are any indications of impairment. If there is an indication of impairment, and the Foundation determines that there is a significant adverse change in the expected timing or amount of future cash flows from the financial asset, it recognizes an impairment loss in the statement of operations. Any reversals of previously recognized impairment losses are recognized in operations in the year the reversal occurs.

Tangible capital assets

Purchased tangible capital assets are recorded at cost. Contributed tangible capital assets are recorded at fair value at the date of contribution, when fair value can be reasonably determined.

The Foundation provides for amortization on all tangible capital assets on a straight-line basis over their estimated useful lives as follows:

Buildings	20 – 40 years
Furnishings	10 years
Landscaping	40 years
Office equipment	5 years
Appliances	10 years
Computer equipment	3 years
Resource material	5 years
Computer software	3 years

Costs are capitalized on buildings which are under development, including all expenditures incurred in connection with the acquisition, development, and construction. Amortization of the asset commences when the building is complete and available for use.

Compassion House Foundation

Notes to the Financial Statements

February 28, 2018

2. Summary of significant accounting policies (cont'd)

Donated materials and contributed services

Donated materials and services are recorded at fair value as determined on the date contributed when the fair value can be reasonably estimated and when the materials and services are normally purchased by the Foundation.

The Foundation is dependent upon the services provided by its volunteers and Board of Directors. Volunteers contributed numerous hours in carrying out the activities of the Foundation. Due to the difficulty in determining their fair value, contributed services are not recognized in the financial statements.

Impairment of long-lived assets

Long lived assets, including tangible capital assets, are reviewed for impairment when events or circumstances indicate that their carrying value exceeds the sum of the undiscounted cash flows expected from their use and eventual disposal. An impairment loss is measured as the amount by which the long lived assets' carrying value exceeds the fair value. This policy did not have any impact for the fiscal year ended February 28, 2018.

3. Financial instrument risks

The Foundation's main financial instrument risk exposure is detailed as follows:

The Foundation holds marketable security investments, which are subject to various risks such as interest rate and market fluctuations as foreign exchange risk. These risks are mitigated by restricting both the type and term of securities eligible for investment. The Foundation is subject to interest rate risk for fair value of future cash flows due to the variable rate applicable to the marketable securities. The Foundation is subject to market price risk on its investment in equities in an active market since changes in market prices could result in changes in the fair value of these investments. The Foundation is subject to currency risk primarily on its marketable securities which are invested in foreign currency investments. Changes in foreign currency rates expose the Foundation to cash flow and fair value risk on those investments.

It is management's opinion that the Foundation is not exposed to significant liquidity risk.

Compassion House Foundation

Notes to the Financial Statements

February 28, 2018

4. Marketable securities

	<u>2018</u>	<u>2017</u>
Templeton Eafe Dev Markets Fund Series O	\$ 640,440	\$ 561,337
Bissett Cdn short term bond fund	-	263,839
Bisset core plus bond fund	-	2,196,233
Core equity fund	1,027,823	985,251
Canadian bond fund	2,710,344	-
US rising dividends fund	272,100	389,368
Money market fund	597,310	540,054
FT money market fund	-	271,489
FT US core equity fund	<u>192,435</u>	<u>93,801</u>
	<u>\$ 5,440,452</u>	<u>\$ 5,301,372</u>

The cost of marketable securities is \$5,176,191 (2017 - \$4,855,097).

The fair values of marketable securities are based on quoted market prices and are subject to significant fluctuations in the equity market. Marketable securities in foreign equities of \$464,535 CDN (2017 - \$483,169 CDN) maybe subject to currency risk. Management has responded with a policy of monitoring market values of the investment portfolio as well as portfolio diversification to mitigate the Foundation's exposure to market and foreign currency risk.

The securities are held for purposes of funding future operations of Sorrentino's Compassion House.

5. Tangible capital assets

			<u>2018</u>	<u>2017</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Land	\$ 616,161	\$ -	\$ 616,161	\$ 616,161
Building	4,232,215	671,930	3,560,285	3,666,090
Furnishings	367,563	332,508	35,055	71,811
Landscaping	30,959	11,871	19,088	19,862
Office equipment	53,435	51,106	2,329	2,166
Vehicles	28,279	28,279	-	5,656
Appliances	39,861	32,904	6,957	10,943
Computer equipment	25,015	25,015	-	-
Resource material	8,234	8,234	-	-
Computer software	<u>51,014</u>	<u>43,256</u>	<u>7,758</u>	<u>10,378</u>
	<u>\$ 5,452,736</u>	<u>\$ 1,205,103</u>	<u>\$ 4,247,633</u>	<u>\$ 4,403,067</u>

Compassion House Foundation

Notes to the Financial Statements

February 28, 2018

6. Deferred contributions

Deferred contributions represent unspent resources related to funds raised for specific expenditures other than the purchase of tangible capital assets. These funds are recognized as revenue when the related expenditures are incurred.

Changes in deferred contributions are as follows:

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 240,690	\$ 166,184
Add: contributions received during the year	50,000	99,901
Less: contribution recognized as revenue	<u>(48,158)</u>	<u>(25,395)</u>
Balance, end of year	<u>\$ 242,532</u>	<u>\$ 240,690</u>

The deferred contributions include the following:

Alberta Liquor and Gaming	\$ 70,868	\$ 97,149
Community van program funding	66,588	66,588
Compassion fund	42,183	33,299
Workshop/retreat funding	<u>62,893</u>	<u>43,654</u>
	<u>\$ 242,532</u>	<u>\$ 240,690</u>

7. Deferred capital contributions

Deferred capital contributions represent amounts received specifically for the purchase of tangible capital assets, including the capital campaign. Contributors to the campaign contribute cash and in-kind donations as well as pledge amounts that are to be received by the Foundation in the future.

Contributions are recorded when received. Pledged amounts represent promised contributions from individuals and corporations. Given that pledged amounts are not legally enforceable claims, they have not been reflected in the financial statements. Outstanding pledges for the sustainability campaign for the year ending February 28, 2018 were \$21,000 (2017 - \$9,000), the total amount of pledges expected to be received within the next five years is \$21,000 (2017 - \$22,500).

Funds are recognized as revenue on the same basis as the amortization expense related to the acquired tangible capital assets. Expenses related to fundraising for the capital campaign are expensed as incurred.

Compassion House Foundation

Notes to the Financial Statements

February 28, 2018

7. Deferred capital contributions (cont'd)

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 3,212,644	\$ 3,306,200
Less: contributions recognized as revenue	<u>(93,600)</u>	<u>(93,556)</u>
Balance, end of year	<u>\$ 3,119,044</u>	<u>\$ 3,212,644</u>

8. Net investment income

	<u>2018</u>	<u>2017</u>
Investment income	\$ 151,739	\$ 129,268
Realized gain on sale of marketable securities	6,381	8,078
Unrealized gain from changes in fair value	10,411	410,192
Investment management fees	<u>(31,444)</u>	<u>(29,453)</u>
	<u>\$ 137,087</u>	<u>\$ 518,085</u>

9. Fashion show

Included in Fashion show revenues are donations of \$118,668 (2017 - \$184,916).

10. Investment in tangible capital assets

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 1,190,425	\$ 1,245,972
Amortization of tangible capital assets	(170,089)	(163,963)
Amortization of deferred capital contributions	<u>93,600</u>	<u>93,556</u>
Deficiency of revenue over expenses	<u>(76,489)</u>	<u>(70,407)</u>
Other items:		
Acquisition of tangible capital assets	<u>14,656</u>	<u>14,860</u>
Balance, end of year	<u>\$ 1,128,592</u>	<u>\$ 1,190,425</u>

Compassion House Foundation

Notes to the Financial Statements

February 28, 2018

11. Internally restricted sustainability funds

During the year, management and the board of directors internally restricted funds raised in the sustainability fund in the amount of \$19,000 (2017 - \$57,900). These funds will be used to support the operations of the Sorrentino's Compassion House.

	<u>2018</u>	<u>2017</u>
Sustainability fund	<u>\$ 2,127,674</u>	<u>\$ 2,108,674</u>

12. Subsequent event

Subsequent to year end, the Foundation purchased a property for a total purchase price of \$420,000. The purchase was financed through the use of cash held in investments and marketable securities.